

Web coupons likely to alter holiday shopping landscape

November 4 2010, By Andrea Chang

As shoppers get ready for another tough holiday season, more will be using coupons - but not your mother's old-school, cut-on-the-dotted-line version.

A new breed of coupons - zapped daily to consumers' e-mail accounts and offering local deals for spa treatments, restaurants, yoga classes, hot-air balloon rides, clothing stores and even Botox - has transformed the dowdy discounts into a social media phenomenon that's attracting a new generation of fans.

The savings are eye-popping: 50 percent to 90 percent off is typical. But there's a catch. If you want that \$40 mani-pedi for 15 bucks, you'll have to pay upfront with a credit card and you'll have to move fast. The chance to snag one of these vouchers usually lasts no more than 24 hours (though merchants will honor them for weeks or months).

Bargain-hungry shoppers are hooked. "Daily deals" websites including Groupon, LivingSocial and Screamin Daily Deals have attracted millions of users, a lot of them young, urban and tech-savvy. Many say they love the excitement of waking up in the morning, checking the latest deal online and deliberating with friends on [Facebook](#) or [Twitter](#) about whether to buy - all while the clock ticks down.

"It's totally addictive," said Yi Zhang, a 24-year-old from West Los Angeles who has spent more than \$1,000 on dozens of daily deals in the last year. "Sometimes I press 'refresh' at midnight if I'm awake."

Retail watchers say the websites have given the retail industry a much-needed lift. Local merchants get an immediate injection of cash, and pure profit if customers pay for the coupons but never use them. More important is exposure: Groupon, for instance, has more than half a million subscribers in the Los Angeles market alone.

There are risks. Some business owners have lost money on the promotions or have been unable to convert deal seekers into permanent customers. Others have capped the number of vouchers they'll honor on a given day, angering buyers.

Still, the deals are proving popular with both merchants and consumers. A recent Groupon offer - \$50 for a 50-minute massage or facial with aromatherapy, half the usual \$100 price - netted 1,618 purchases for Los Angeles-area Dtox Day Spa.

"Ninety percent of the people we're getting are new clientele," co-owner Cary Mock said. "It helps to put us on the map."

The trend is quickly spreading beyond merchants.

Nonprofits such as the Huntington Library, Art Collections and Botanical Gardens in San Marino, Calif, have attracted thousands of new patrons using daily deals. Major retail chains are jumping in too: Apparel giant Gap recently sold \$50 gift certificates for \$25 on Groupon - shoppers nationwide snapped up 445,000 of them in just 24 hours. Another recent Groupon was a \$20 deal for \$40 worth of merchandise at the Body Shop.

And now companies including newspapers and consumer reviews website Yelp are rolling out their own programs. The Los Angeles Times' parent company, Tribune Co., recently signed a deal with Groupon to start a daily deals website, called Liquid Coupon, powered

by Groupon's software and customer support. Tribune Co. is a partner in McClatchy-Tribune News Service.

The daily deals phenomenon "is a rocket ship unlike anything we've probably seen in consumer shopping online," said Brad Wilson, a discounts expert and founder of BradsDeals.com. "It's brilliant."

The websites generally follow a similar format: A daily deals company partners with a local business, which offers one of its products or services at a deep discount. Consumers can buy the deal for themselves or as a gift for someone else.

After a deal is bought, consumers print out their e-mailed vouchers and present them to the merchant when they want to redeem; some companies allow buyers to show the purchase on their smart phones. Merchants are responsible for tracking which coupons are redeemed to prevent duplication.

With Americans expected to shop frugally for the holidays this year, deal sites are planning big promotions. LivingSocial will launch 12 Days of Gifting, a program that will offer 12 consecutive days of "inherently giftable" deals such as fine dining and wine-making, Chief Executive Tim O'Shaughnessy said.

The company - which has 10 million subscribers in the U.S., Canada, Britain and Ireland - said it has saved consumers more than \$100 million this year.

Groupon, too, will put a "huge emphasis on gifting" this [holiday season](#), President Rob Solomon said. The company began two years ago in Chicago and has since racked up 25 million subscribers in 31 countries.

"We're really going to go for it and really blow it out," Solomon said.

Instead of hitting the mall, daily deals devotee Marian Bacol-Uba, 25, said she would be scouring coupon sites for her family's Christmas gifts.

"I'd rather give them a deal for a restaurant that I know they'd try instead of a shirt I know they'd never wear," said Bacol-Uba, a food blogger and marketing manager from Irvine.

Some shoppers said they would avoid giving daily deals as holiday gifts out of fear of being seen as cheap or lazy. But retailers said that gift cards, now wildly popular with consumers, faced similar resistance when they were first introduced.

"With time, everyone prefers it," said Hasty Torres, owner of Madame Chocolat in Beverly Hills, Calif. The gourmet chocolate shop recently sold 1,245 Groupons, many of which were earmarked by buyers as gifts for others. "Groupons, I think, are the next generation," she said.

Not all merchants are smitten. The promotions can produce an instant revenue boost, but profit can be elusive. Businesses not only have to offer deep discounts but also must give the daily deals websites a big chunk of those sales: A 50-50 split is typical.

Posies Cafe, a coffee shop in Portland, Ore., was almost put out of business after selling nearly 1,000 Groupons this year, owner Jessie Burke said.

Customers paid \$6 for \$13 worth of products, but Posies received only \$3 from every purchase after Groupon took its cut, she said. Burke said her cash flow deteriorated so quickly, she had to inject \$8,000 of her own savings to cover employee salaries and other expenses.

"Groupon can work for a lot of people, but it was not a good decision for us," she said. "The losses were overwhelming. I was just disappointed by

it."

Some consumers have gripes as well. Deluged merchants have run out of products and appointment times. Others have gone out of business, leaving customers with unused, worthless vouchers.

Executives at daily deals websites say they try to vet businesses to make sure they're healthy and reputable, and they advise businesses on dealing with the spike in customers. In the rare cases when customers aren't satisfied or a business closes, websites including Groupon and LivingSocial issue full refunds.

Wilson of BradsDeals said he's betting that the trend will survive the economic downturn, in part because consumers simply can't resist the allure of a bargain.

"There's such a compulsion to it," he said. "People end up spending more than they intended in the excitement of the countdown of that day."

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